

## Auditing Procedures Report

Issued under P.A. 2 of 1988, as amended

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input checked="" type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name <b>Village of Romeo</b>	County <b>Macomb</b>
Audit Date <b>6/30/04</b>	Opinion Date <b>11/4/04</b>	Date Accountant Report Submitted to State: <b>12/27/04</b>	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- |   |   |
|---|---|
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).  |
| <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1988, as amended).  |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 9. The local unit has not adopted an investment policy as required by P.A. 156 of 1997 (MCL 129.95).  |

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASUGU).			✓

Certified Public Accountant (Firm Name) <b>Stewart, Beauvais &amp; Whipple</b>			
Street Address <b>1979 Holland Ave.</b>	City <b>Port Huron</b>	State <b>MI</b>	ZIP <b>48060</b>
Accountant Signature <i>Stewart, Beauvais &amp; Whipple</i>		Date <b>12/27/04</b>	

**VILLAGE OF ROMEO, MICHIGAN**

**ANNUAL FINANCIAL STATEMENTS  
And Supplementary Information**

**FOR THE YEAR ENDED  
JUNE 30, 2004**

**Stewart,  
Beauvais  
& Whipple P.C.**

CERTIFIED PUBLIC ACCOUNTANTS



**VILLAGE OF ROMEO, MICHIGAN**  
**Macomb County, Michigan**

**TABLE OF CONTENTS**  
**JUNE 30, 2004**

	<u>Page Number</u>
<b>Independent Auditor's Report</b>	<b>1</b>
<b>Management's Discussion and Analysis</b>	<b>3</b>
<b>Basic Financial Statements:</b>	
<b>Government-wide Financial Statements:</b>	
Statement of Net Assets	9
Statement of Activities	10
<b>Fund Financial Statements:</b>	
Balance Sheet - Governmental Funds	12
Reconciliation of Fund Balances on the Balance Sheet for Governmental Funds to Net Assets of Governmental Activities on the Statement of Net Assets	13
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	14
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	15
Statement of Net Assets - Proprietary Funds	16
Statement of Revenues, Expenses and Changes in Net Assets - Proprietary Funds	17
Statement of Cash Flows - Proprietary Funds	18
Statement of Fiduciary Net Assets - Fiduciary Funds	19
Notes to the Financial Statements	20
<b>Required Supplementary Information:</b>	
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual General Fund	41
Special Revenue Fund- Major Street Fund	43

VILLAGE OF ROMEO, MICHIGAN  
Macomb County, Michigan

TABLE OF CONTENTS  
JUNE 30, 2004

	<u>Page Number</u>
Supplementary Information:	
Combining and Individual Fund Statements and Schedules	
Nonmajor Governmental Funds -	
Combining Balance Sheet	44
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances	46
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual	
Local Street Fund	48
Cemetery Fund	49
Public Improvement Fund	50
Inspections Fund	51
Library Fund	52
Harron Cable Fund	53
Fiduciary Funds -	
Agency Fund -	
Combining Statement of Changes in Assets and Liabilities	54
Component Unit (Downtown Development Authority) -	
Balance Sheet	55
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual	56

## INDEPENDENT AUDITOR'S REPORT

To the President and Members  
of the Village Board  
Village of Romeo, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the remaining fund information of the Village of Romeo, Michigan, as of and for the year ended June 30, 2004, which collectively comprise the Village's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Village of Romeo's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Village of Romeo, Michigan, as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 19 to the basic financial statements, the Village and its component unit adopted Governmental Accounting Statement Board Statement No. 34 and related statements as of and for the year ended June 30, 2004. This resulted in a change in the Village's basic financial statement format and content.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 4, 2004 on our consideration of the Village of Romeo's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*, and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis on pages 3 through 8, and schedules of budgetary comparisons on pages 41 through 43 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Village of Romeo's basic financial statements. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements have been subjected to the auditing procedure applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

  
Certified Public Accountants

November 4, 2004

### OVERVIEW OF THE FINANCIAL STATEMENTS

The Village of Romeo's 2004 annual report is presented in conformity with the requirements of GASB 34. This annual report consists of four parts – management's discussion and analysis, the basic financial statements, required supplementary information, and other supplemental information, which presents combining statements for nonmajor governmental funds and component unit information. The basic financial statements include two kinds of statements that present different views of the Village. The first two statements are government-wide financial statements that provide both long-term and short-term information about the Village's overall financial status. The remaining statements are fund financial statements that focus on individual parts of the Village's government, reporting the Village's operations in more detail than the government-wide statements.

#### *Government-wide Financial Statements*

The government-wide statements report information about the Village as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid (full accrual).

The two government-wide statements report the Village's net assets and how they have changed. Net assets, defined as the difference between the Village's assets and liabilities, are one way to measure the Village's financial health or position.

The government-wide financial statements of the Village are divided into two categories:

**Governmental activities** - most of the Village's basic services are included here, such as the police, fire, public works, parks and recreation, general administration and debt retirement. Property taxes, state-shared revenues, charges for services, and most of the funding.

**Business-type activities** - the Village charges fees to customers to help it cover the costs of certain services it provides. The water and sewer operations are treated as business-type activities.

#### *Fund Financial Statements*

The fund financial statements provide more detailed information about the Village's most significant funds; not the Village as a whole. Funds are accounting devices that the Village uses to keep track of specific sources of funding and spending for particular purposes. Some funds are required by State law and/or by bond covenants. The Village Council establishes other funds to control and manage money for particular purposes.

The Village has three kinds of funds:

**Governmental funds** - Most of the Village's basic services are included in governmental funds, which focus on how cash and other financial assets can readily be converted to cash flow in and out, and the balances left at year end that are available for spending. The governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the Village's programs. The Village currently has 13 governmental funds.

**Proprietary funds** - Proprietary funds use the accrual basis of accounting, which is the same basis used by the private businesses. The Village maintains two different types of proprietary funds.

**Enterprise Funds** - are used to report services for which the Village charges customers a fee for those services. The Village has two enterprise funds, the Water and Sewer Funds.

**Internal Service Funds** - report activities that provide services and supplies to other Village programs. The Village utilizes a Motor Pool internal service fund.

**Fiduciary Funds** - Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of these funds are not available to support the Village's operations.

## FINANCIAL OVERVIEW (Government-wide financial analysis)

The Village has combined total net assets of \$14,099,761 million. This is an increase of \$213,524 over 2003. Government-type activities comprise \$5,460,562 million, and business-type activities make up \$8,639,199 million of the total net assets. In a condensed format, the table below shows net assets as of June 30, 2004. Future reports will provide comparative data.

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
<b>Assets</b>			
Current assets	\$ 4,023,236	\$ (16,128)	\$ 4,007,108
Restricted assets	-	15,220	15,220
Capital assets	<u>2,675,376</u>	<u>10,707,023</u>	<u>13,382,399</u>
Total assets	<u>6,698,612</u>	<u>10,706,115</u>	<u>17,404,727</u>
<b>Liabilities</b>			
Current liabilities	158,580	85,635	244,215
Long-term liabilities	<u>1,079,470</u>	<u>1,981,281</u>	<u>3,060,751</u>
Total liabilities	<u>1,238,050</u>	<u>2,066,916</u>	<u>3,304,966</u>
<b>Net Assets</b>			
Invested in capital assets -			
Net of related debt	1,685,992	8,359,155	10,045,147
Restricted	121,979	15,220	137,199
Unrestricted	<u>3,652,591</u>	<u>264,824</u>	<u>3,917,415</u>
Total net assets	<u>\$ 5,460,562</u>	<u>\$ 8,639,199</u>	<u>\$ 14,099,761</u>

The Village's governmental activities experienced a net change in assets of \$239,522. The main reason is the collection of revenues to pay bond principals and cash flow for assets purchased during the year. The business-type activities experienced a decrease in net assets of \$(25,998), which is approximately 2% of annual expenses. This is a result of rates and transfers from the General Fund not being sufficient to cover operations. Over the past few years the General Fund has subsidized the water and sewer operations.



The following table shows the changes in net assets for 2004. Future reports will provide comparative data.

	Governmental Activities	Business-type Activities	Total
<b>Revenue</b>			
Program revenue:			
Charges for services	\$ 156,632	\$ 841,085	\$ 997,717
Operating grants and contributions	251,307	-	251,307
Capital grants and contributions	-	51,371	51,371
General revenue:			
Property taxes	2,732,544	-	2,732,544
State-shared revenue	401,090	-	401,090
Unrestricted investment earnings	34,009	1,569	35,578
Unrestricted royalty income	71,189	-	71,189
Total Revenue	<u>3,646,771</u>	<u>894,025</u>	<u>4,540,796</u>
<b>Program Expenses</b>			
General government	418,507	-	418,507
Public safety	1,333,389	-	1,333,389
Public works	818,377	-	818,377
Recreation and cultural	38,607	-	38,607
Other activities	125,477	-	125,477
Interest on long-term debt	65,526	-	65,526
Water	-	735,446	735,446
Sewer	-	791,943	791,943
Total Program Expenses	<u>2,799,883</u>	<u>1,527,389</u>	<u>4,327,272</u>
Changes in net assets before transfers	846,888	( 633,364)	213,524
Transfers between funds	<u>( 607,366)</u>	<u>607,366</u>	<u>-</u>
Changes in net assets	<u>\$ 239,522</u>	<u>\$ ( 25,998)</u>	<u>\$ 213,524</u>

#### *Governmental Activities*

Revenues for governmental activities totaled \$3,646,771 million in 2004. Of this amount \$2,732,544 million or 75% was received from taxes followed by state Shared Revenue of 11%.

#### *Business-type Activities*

The Village has two business-type activities, water and wastewater. The Village operates its own water and sewage treatment facility as well as purchasing water for the Detroit Water Board for certain customers. The water and wastewater funds had a net increase (decrease) in net assets of \$79,601 and \$(105,599), respectively.

## **FINANCIAL ANALYSIS OF MAJOR FUNDS**

The General Fund ended 2004 with a fund balance of \$1,553,984, of which \$90,086 was designated for vested accrued vacation and sick time, with the remaining amount of \$1,463,898 unreserved. This is a decrease of \$113,499 for the prior year. This decrease is mainly as a result of transfers to other funds being \$77,825 more than budgeted.

The Major Street Fund ended 2004 with a fund balance of \$998,030 and increase of \$39,003. This increase is a result of receiving \$35,801 more of Act 51 revenue's than anticipated.

The other major funds are the Water Supply System and Wastewater Fund which have been discussed earlier.

## **BUDGETARY HIGHLIGHTS**

Over the course of the year, the Village administration and Council monitor the budget, and if necessary, amend the budget to take into account unanticipated events that occur during the year. During the year no amendments were made and operating results varied significantly from the budget in the following areas:

### **General Fund**

- Property tax revenues were \$66,611 less than budgeted because of overestimating Personal Property taxes and not taking into account the DDA capture.
- State shared revenues were \$60,921 less than budgeted as a result of reductions by the State.
- Interest and Rents were \$62,433 more than budgeted as a result of collecting a final settlement for royalties of \$71,189.
- The Police Department spent \$74,260 more than budgeted as a result of an approved purchase of an enhanced 911 System upgrade.
- The Department of Public Works spent \$67,247 more than budgeted as a result of increased prices on raw materials, supplies and chemicals along with an increase in health benefits.

### **Major Streets**

- Revenue was \$39,484 more than budgeted as a result of receiving \$35,801 more of Act 51 revenue's than anticipated.

## **CAPITAL ASSETS AND DEBT ADMINISTRATION**

### **Capital Assets**

The Village had \$13,382,399 invested in capital assets for its governmental and business-type activities (net of accumulated depreciation) as of June 30, 2004. The investment in capital assets includes, land, building and building improvements, machinery and equipment, vehicles, and water and sewer systems. Infrastructure (e.g. roads, drains, etc.) purchased on or after July 1, 2003 is also included. During the year the Village added approximately \$537,996 of capital assets before taking into account depreciation, \$298,083 in the governmental activities and \$239,913 in the business activities. The most significant items in the governmental activities were the new decorative fencing for the Cemetery, a new vehicle for the DPW and the reconstruction of sidewalks. The addition in the business activities was for the expansion and upgrade of the Wastewater Treatment Plant. Depreciation for the year was \$540,981.

The following table shows the capital assets at June 30, 2004:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>
Land	\$ 681,473	\$ 15,316
Land improvements	321,545	-
Building and improvements	1,617,900	7,285,842
Machinery and equipment	635,618	1,669,798
Vehicles	1,118,693	-
Infrastructure	75,644	-
Utility systems	-	7,870,222
Construction in progress	-	<u>1,090,543</u>
	<u>4,450,873</u>	<u>17,931,721</u>
Accumulated depreciation	<u>( 1,775,497)</u>	<u>( 7,224,698)</u>
	<u>\$ 2,675,376</u>	<u>\$ 10,707,023</u>

#### Long-term Debt

At June 30, 2004 the Village had \$3,147,476 in long-term debt compared to \$3,630,010 at June 30 2003. There were no additions to long-term debt during the year. The following table shows the long-term debt at June 30, 2004:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>
Bonds	\$ 855,000	\$ 1,470,000
Capital Leases	84,293	-
Notes/Contracts Payable	50,091	570,903
Compensated Absences	<u>90,086</u>	<u>27,101</u>
	<u>1,079,470</u>	<u>2,068,004</u>
Deferred Refunding Loss	-	<u>( 86,723)</u>
	<u>\$ 1,079,470</u>	<u>\$ 1,981,281</u>

#### ECONOMIC FACTORS AND NEXT YEARS BUDGETS AND RATES

The Village of Romeo, population 3,721 (2000 Census) is primarily a residential community proud of its historic character, and small town charm, with a strong based industrial district. The reported median income level for the Village of Romeo is \$48,015 ( SEMCOG Profile). There are two areas slated for development, one 15 acre site in the multiple family district, and a 55 acre site in the industrial district, which will be developed under the Brownfield Redevelopment Plan.

Many factors are considered in preparation of the Village's budget for the 2005 fiscal year. Those factors considered are as follows:

- The age of the community and its infrastructure is considered for long term maintenance projects. The average lifespan of an asphalt road is 16 to 18 years. The Village local streets were repaved in 1994 and 1995. East Pond Drive (over 20 years old) in the industrial district and several of the alleys within the central business district are in need of repair and repaving.
- The water and sewer funds are subsidized by the General Fund. The Board of Trustees increased the water rates from \$9.40 to \$11.00 in November 2002, however, the sewer rates have not been raised in over 21 years. Along with consideration to raise the millage rate to cover the General Obligation Debt on the Wastewater Treatment Plant project, the Board will discuss the utility rates for future maintenance costs.
- Ford Motor Company proportionately is the largest taxpayer to the Village of Romeo, and every effort should be made to encourage other development in the industrial district, should anything change with Ford's.

#### CONTACTING THE VILLAGE

This financial report is designed to provide a general overview of the Village's finances to our residents and other interested parties in understanding the Village's financial condition. If you have questions about this report or need additional financial information, please contact the Village/Clerk Administrator, Marian T. McLaughlin, at 586-752-3565, or in writing to the same, 121 W. St. Clair, Romeo, MI 48065.

## **BASIC FINANCIAL STATEMENTS**

# VILLAGE OF ROMEO, MICHIGAN

## STATEMENT OF NET ASSETS JUNE 30, 2004

	Primary Government			Component
	Governmental Activities	Business Type Activities	Total	Unit DDA
<b>ASSETS:</b>				
Cash and cash equivalents	\$ 2,693,797	\$ 198,591	\$ 2,892,388	\$ 160,577
Investments	436,706	-	436,706	-
Receivables (net of allowance)	226,871	277,766	504,637	-
Due from primary government	-	-	-	50,791
Prepaid expenditures	173,377	-	173,377	-
Internal balances	492,485	( 492,485)	-	-
Restricted Assets -				
Cash and cash equivalents	-	15,220	15,220	-
Capital assets (net of accumulated depreciation)				
Assets not being depreciated	681,473	-	681,473	-
Assets being depreciated	1,993,903	10,707,023	12,700,926	-
Total Assets	<u>6,698,612</u>	<u>10,706,115</u>	<u>17,404,727</u>	<u>211,368</u>
<b>LIABILITIES:</b>				
Payables and accrued liabilities	95,943	62,776	158,719	-
Accrued interest	11,846	22,859	34,705	-
Due to component unit	50,791	-	50,791	-
Non-current liabilities				
Due within one year	153,867	335,682	489,549	-
Due in more than one year	925,603	1,645,599	2,571,202	-
Total Liabilities	<u>1,238,050</u>	<u>2,066,916</u>	<u>3,304,966</u>	<u>-</u>
<b>NET ASSETS:</b>				
Investment in capital assets, net of related liabilities	1,685,992	8,359,155	10,045,147	-
Restricted				
Debt service	120,024	-	120,024	-
Acquisition/construction of capital assets	1,955	15,220	17,175	-
Unrestricted	<u>3,652,591</u>	<u>264,824</u>	<u>3,917,415</u>	<u>211,368</u>
Total Net Assets	<u>\$ 5,460,562</u>	<u>\$ 8,639,199</u>	<u>\$ 14,099,761</u>	<u>\$ 211,368</u>

The accompanying notes are an integral part of these financial statements.

# VILLAGE OF ROMEO, MICHIGAN

## STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2004

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
<b>Primary Government</b>				
Governmental activities:				
General Government	\$ 418,507	\$ 71,873	\$ -	\$ -
Public Safety	1,333,389	47,875	5,989	-
Public Works	818,377	26,024	205,701	-
Recreation and Culture	38,607	10,860	39,617	-
Other Activities	125,477	-	-	-
Interest on Long Term Debt	65,526	-	-	-
Total governmental activities	<u>2,799,883</u>	<u>156,632</u>	<u>251,307</u>	<u>-</u>
Business type activities:				
Water Supply System	735,446	336,095	-	-
Wastewater	791,943	504,990	-	51,371
Total business type activities	<u>1,527,389</u>	<u>841,085</u>	<u>-</u>	<u>51,371</u>
Total Primary Government	<u>4,327,272</u>	<u>997,717</u>	<u>251,307</u>	<u>51,371</u>
<b>Component Units</b>				
Downtown Development Authority	<u>48,534</u>	<u>-</u>	<u>-</u>	<u>-</u>
General revenues:				
Property taxes				
Grants and contribution not - restricted to specific programs				
Unrestricted investment income				
Unrestricted royalty income				
Transfers				
Total general revenues and transfers				
Change in net assets				
Net assets at beginning of year as restated				
Net assets at end of year				

The accompanying notes are an integral part of these financial statements.

Net (Expense) Revenue and Change in Net Assets

<u>Governmental Activities</u>	<u>Primary Government</u>		<u>Component Units</u>
	<u>Business Type Activities</u>	<u>Total</u>	<u>DDA</u>
\$ ( 346,634)	\$ -	\$ ( 346,634)	\$ -
( 1,279,525)	-	( 1,279,525)	-
( 586,652)	-	( 586,652)	-
11,870	-	11,870	-
( 125,477)	-	( 125,477)	-
( 65,526)	-	( 65,526)	-
<u>( 2,391,944)</u>	<u>-</u>	<u>( 2,391,944)</u>	<u>-</u>
-	( 399,351)	( 399,351)	-
-	( 235,582)	( 235,582)	-
-	( 634,933)	( 634,933)	-
<u>( 2,391,944)</u>	<u>( 634,933)</u>	<u>( 3,026,877)</u>	<u>-</u>
-	-	-	<u>( 48,534)</u>
2,732,544	-	2,732,544	114,957
401,090	-	401,090	-
34,009	1,569	35,578	749
71,189	-	71,189	-
( 607,366)	607,366	-	-
<u>2,631,466</u>	<u>608,935</u>	<u>3,240,401</u>	<u>115,706</u>
239,522	( 25,998)	213,524	67,172
<u>5,221,040</u>	<u>8,665,197</u>	<u>13,886,237</u>	<u>144,196</u>
<u>\$ 5,460,562</u>	<u>\$ 8,639,199</u>	<u>\$ 14,099,761</u>	<u>\$ 211,368</u>



**VILLAGE OF ROMEO, MICHIGAN**

**BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2004**

	<u>General</u>	<u>Major Street</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>				
<b>Assets:</b>				
Cash and cash equivalents	\$ 1,025,684	\$ 600,210	\$ 953,141	\$ 2,579,035
Investments	17,711	418,995	-	436,706
Receivables -				
Interest and accounts	8,040	-	-	8,040
Property taxes	73,990	-	1,607	75,597
Due from other governmental units -				
Federal/State	135,602	22,053	11,465	169,120
Local	8,277	-	-	8,277
Due from other funds	494,504	-	100,675	595,179
Prepayments and deposits	-	-	39,617	39,617
<b>Total Assets</b>	<u><u>\$ 1,763,808</u></u>	<u><u>1,041,258</u></u>	<u><u>\$ 1,106,505</u></u>	<u><u>\$ 3,911,571</u></u>
<b>Liabilities:</b>				
Accounts payable	\$ 37,368	626	\$ 25,700	\$ 63,694
Accrued liabilities	8,193	42	1,348	9,583
Due to other funds	46,757	42,560	32,341	121,658
Due to component units	50,791	-	-	50,791
Deferred revenue	66,715	-	-	66,715
<b>Total Liabilities</b>	<u><u>209,824</u></u>	<u><u>43,228</u></u>	<u><u>59,389</u></u>	<u><u>312,441</u></u>
<b>Fund Balances:</b>				
Reserved -				
Prepays	-	-	39,617	39,617
Debt Service	-	-	120,024	120,024
Capital Projects	-	-	1,955	1,955
Unreserved -				
Designated -				
Accrued vacation and sick	90,086	-	-	90,086
Undesignated -				
General Fund	1,463,898	-	-	1,463,898
Special Revenue Funds	-	998,030	885,520	1,883,550
<b>Total Equity</b>	<u><u>1,553,984</u></u>	<u><u>998,030</u></u>	<u><u>1,047,116</u></u>	<u><u>3,599,130</u></u>
<b>Total Liabilities and Fund Equity</b>	<u><u>\$ 1,763,808</u></u>	<u><u>\$ 1,041,258</u></u>	<u><u>\$ 1,106,505</u></u>	<u><u>\$ 3,911,571</u></u>

The accompanying notes are an integral part of these financial statements.

# VILLAGE OF ROMEO, MICHIGAN

## RECONCILIATION OF FUND BALANCES ON THE BALANCE SHEET FOR GOVERNMENTAL FUNDS TO NET ASSETS OF GOVERNMENTAL ACTIVITIES ON THE STATEMENT OF NET ASSETS JUNE 30, 2004

Fund Balances - total governmental funds		\$	3,599,130
Amounts reported for governmental activities in the statement of net assets are different because:			
Prepaid Expenses recorded in the funds on the purchase method			133,760
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.			
Capital assets			3,485,654
Accumulated depreciation	(		1,138,262)
Other long term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds.			
Delinquent personal property taxes			66,715
Allowance for uncollectible taxes receivable	(		34,163)
Internal Service Fund used by management to charge cost of the City's motor pool activities. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets.			439,044
Long - term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.			
Bonds/Notes payable	(	888,170)	
Compensated absences	(	90,086)	
Installment contracts	(	16,921)	
Capital leases	(	84,293)	
Accrued interest	(	11,846)	( 1,091,316)
Net Assets of governmental activities		\$	<u>5,460,562</u>

The notes to the financial statements are an integral part of this statement.

# VILLAGE OF ROMEO, MICHIGAN

## STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES GOVERNMENTAL FUNDS FOR THE YEAR ENDED JUNE 30, 2004

	General	Major Street	Other Governmental Funds	Total Governmental Funds
<b>Revenues:</b>				
Taxes	\$ 2,597,621	\$ -	\$ 129,952	\$ 2,727,573
Licenses and permits	1,678	-	-	1,678
Intergovernmental -				
State	407,079	129,801	75,901	612,781
Charges for services	-	-	40,523	40,523
Fines and forfeits	47,581	-	-	47,581
Interest and rent	82,433	13,683	19,942	116,058
Other	15,002	-	80,604	95,606
<b>Total Revenues</b>	<u>3,151,394</u>	<u>143,484</u>	<u>346,922</u>	<u>3,641,800</u>
<b>Expenditures:</b>				
<b>Current -</b>				
General Government	444,899	-	84,507	529,406
Public Safety	1,228,896	-	34,100	1,262,996
Public Works	371,143	45,128	358,442	774,713
Recreation and Culture	-	-	38,607	38,607
Other Activities	125,477	-	-	125,477
Capital Outlay	27,766	-	184,530	212,296
Debt Service				
Principal	27,559	-	120,544	148,103
Interest	4,510	-	62,260	66,770
<b>Total Expenditures</b>	<u>2,230,250</u>	<u>45,128</u>	<u>882,990</u>	<u>3,158,368</u>
Excess of revenues over (under) expenditures	<u>921,144</u>	<u>98,356</u>	<u>( 536,068)</u>	<u>483,432</u>
<b>Other Financing Sources (Uses):</b>				
Transfers In	-	-	823,822	823,822
Transfers Out	( 1,034,643)	( 59,353)	( 311,192)	( 1,405,188)
<b>Total Other Financing Sources (Uses)</b>	<u>( 1,034,643)</u>	<u>( 59,353)</u>	<u>512,630</u>	<u>( 581,366)</u>
Excess of revenues and other sources over (under) expenditures and other uses	<u>( 113,499)</u>	<u>39,003</u>	<u>( 23,438)</u>	<u>( 97,934)</u>
Fund Balances at beginning of year	1,584,482	959,027	1,070,554	3,614,063
Prior period adjustments	<u>83,001</u>	<u>-</u>	<u>-</u>	<u>83,001</u>
Fund Balances at beginning of year as restated	<u>1,667,483</u>	<u>959,027</u>	<u>1,070,554</u>	<u>3,697,064</u>
Fund Balances at end of year	<u>\$ 1,553,984</u>	<u>\$ 998,030</u>	<u>\$ 1,047,116</u>	<u>\$ 3,599,130</u>

The accompanying notes are an integral part of these financial statements.

# VILLAGE OF ROMEO, MICHIGAN

## RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGE IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES JUNE 30, 2004

Net change in fund balances - total governmental funds	\$	( 97,934)
Change in prepaid expenses recorded in the funds on the purchase method		61,847
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.		
Capital outlay		200,230
Depreciation expense	(	112,970)
Revenue in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		4,971
Repayment of the principal of long-term debt consumes the current financial resources of governmental funds, however has no effect on net assets.		148,103
Internal service funds used by management to charge costs of the Village's motor pool activities. The net revenues (expenses) attributable to those funds is reported with governmental activities.		32,322
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.		
Decrease in accrued interest payable		1,244
Decrease in accrued compensated absences		1,709
		<u>2,953</u>
Change in net assets of governmental activities	\$	<u>239,522</u>

The notes to the financial statements are an integral part of this statement.

# VILLAGE OF ROMEO, MICHIGAN

## STATEMENT OF NET ASSETS PROPRIETARY FUNDS JUNE 30, 2004

	Business Type Activities-Enterprise Funds			Governmental Activities
	Water Supply System	Wastewater	Total	Internal Service Fund
<b>ASSETS:</b>				
<b>Current Assets:</b>				
Cash and cash equivalents	\$ 92,669	\$ 105,922	\$ 198,591	\$ 114,762
Accounts and interest receivable	93,749	184,017	277,766	-
Due from other funds	61,166	-	61,166	19,988
	<u>247,584</u>	<u>289,939</u>	<u>537,523</u>	<u>134,750</u>
<b>Restricted Assets:</b>				
Cash and cash equivalents	3,134	12,086	15,220	-
Total Current Assets	<u>250,718</u>	<u>302,025</u>	<u>552,743</u>	<u>134,750</u>
<b>Property, Plant and Equipment:</b>				
Property, plant and equipment	8,996,689	8,935,032	17,931,721	965,219
Less - accumulated depreciation	( 2,344,850)	( 4,879,548)	( 7,224,698)	( 637,235)
Total Property, Plant and Equipment (net of accumulated depreciation)	<u>6,651,839</u>	<u>4,055,484</u>	<u>10,707,023</u>	<u>327,984</u>
<b>Total Assets</b>	<u>6,902,557</u>	<u>4,357,209</u>	<u>11,259,766</u>	<u>462,734</u>
<b>LIABILITIES:</b>				
<b>Current Liabilities:</b>				
Accounts payable	31,964	28,257	60,221	22,666
Accrued expenses	667	1,888	2,555	-
Accrued interest	22,859	-	22,859	-
Loan payable (current portion)	335,682	-	335,682	-
Due to other funds	43,253	510,398	553,651	1,024
Total Current Liabilities	<u>434,425</u>	<u>540,543</u>	<u>974,968</u>	<u>23,690</u>
<b>Long-Term Liabilities (less current portions):</b>				
Accrued vacation and sick	1,474	25,627	27,101	-
Loan payable (net of current portion)	1,618,498	-	1,618,498	-
Total Long-Term Liabilities	<u>1,619,972</u>	<u>25,627</u>	<u>1,645,599</u>	<u>-</u>
Total Liabilities	<u>2,054,397</u>	<u>566,170</u>	<u>2,620,567</u>	<u>23,690</u>
<b>NET ASSETS:</b>				
Investment in capital assets, net	4,697,659	3,661,496	8,359,155	327,984
Reserved Equipment Replacement	3,134	12,086	15,220	-
Unrestricted				
Unreserved	<u>147,367</u>	<u>117,457</u>	<u>264,824</u>	<u>111,060</u>
<b>Total Net Assets</b>	<u>\$ 4,848,160</u>	<u>\$ 3,791,039</u>	<u>\$ 8,639,199</u>	<u>\$ 439,044</u>

The accompanying notes are an integral part of these financial statements.

# VILLAGE OF ROMEO, MICHIGAN

## STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS PROPRIETARY FUNDS FOR THE YEAR ENDED JUNE 30, 2004

	Business Type Activities-Enterprise Funds			Governmental Activities
	Water Supply System	Wastewater	Total	Internal Service Funds
<b>Operating Revenues:</b>				
Charges for services	\$ 327,031	\$ 501,390	\$ 828,421	\$ -
Rents	-	-	-	147,552
Other	6,064	-	6,064	13,841
Total Operating Revenues	<u>333,095</u>	<u>501,390</u>	<u>834,485</u>	<u>161,393</u>
<b>Operating Expenses:</b>				
Personal services	104,108	325,929	430,037	17,901
Purchase of water	119,168	-	119,168	-
Utilities	51,312	84,088	135,400	-
Repairs and maintenance	72,356	95,974	168,330	-
Other	65,837	121,792	187,629	18,940
Depreciation	196,937	164,160	361,097	66,914
Total Operating Expenses	<u>609,718</u>	<u>791,943</u>	<u>1,401,661</u>	<u>103,755</u>
Operating Income (Loss)	<u>( 276,623)</u>	<u>( 290,553)</u>	<u>( 567,176)</u>	<u>57,638</u>
<b>Non-Operating Revenues:</b>				
Interest earned	690	879	1,569	684
Tap fees	3,000	3,600	6,600	-
Interest expenses	( 125,728)	-	( 125,728)	-
Total Non-Operating Revenues	<u>( 122,038)</u>	<u>4,479</u>	<u>( 117,559)</u>	<u>684</u>
Net Income (Loss) Before Transfers	<u>( 398,661)</u>	<u>( 286,074)</u>	<u>( 684,735)</u>	<u>58,322</u>
<b>Other Financing Sources (Uses)</b>				
Transfers In	478,262	129,104	607,366	4,000
Transfers Out	-	-	-	( 30,000)
	<u>478,262</u>	<u>129,104</u>	<u>607,366</u>	<u>( 26,000)</u>
Net Income (Loss) before contributions	<u>79,601</u>	<u>( 156,970)</u>	<u>( 77,369)</u>	<u>32,322</u>
Capital Contributions	<u>-</u>	<u>51,371</u>	<u>51,371</u>	<u>-</u>
Net Income (Loss)	<u>79,601</u>	<u>( 105,599)</u>	<u>( 25,998)</u>	<u>32,322</u>
Net Assets at beginning of year	3,822,056	779,958	4,602,014	322,631
Prior period adjustments	<u>946,503</u>	<u>3,116,680</u>	<u>4,063,183</u>	<u>84,091</u>
Net Assets at beginning of year as restated	<u>4,768,559</u>	<u>3,896,638</u>	<u>8,665,197</u>	<u>406,722</u>
Net Assets end of year	<u>\$ 4,848,160</u>	<u>\$ 2,791,039</u>	<u>\$ 8,639,199</u>	<u>\$ 439,044</u>

The accompanying notes are an integral part of these financial statements.

# VILLAGE OF ROMEO, MICHIGAN

## STATEMENT OF CASH FLOWS PROPRIETARY FUNDS FOR THE YEAR ENDED JUNE 30, 2004

	Business Type Activities-Enterprise Funds			Governmental Activities
	Water Supply System	Wastewater	Total	Internal Service Funds
<b>Cash Flows From Operating Activities:</b>				
Cash receipts from customers	\$ 329,553	\$ 504,328	\$ 833,881	\$ 13,841
Cash receipts from rental of equipment	-	-	-	147,552
Cash payments to suppliers	( 359,944)	( 505,128)	( 865,072)	( 29,128)
Cash payments to employees	( 69,963)	( 206,448)	( 276,411)	( 9,944)
Net Cash Provided (Used) by Operating Activities	( 100,354)	( 207,248)	( 307,602)	122,321
<b>Cash Flows From Noncapital Financing Activities:</b>				
Due from/to other funds	( 20,374)	305,622	285,248	( 4,491)
Transfers from/to other funds	178,262	129,104	607,366	( 26,000)
Net Cash Provided (Used) by Noncapital Financing Activities	457,888	434,726	892,614	( 30,491)
<b>Cash Flows From Capital and Related Financing Activities:</b>				
Bond/installment purchase payments -				
Principal and Interest	( 457,065)	-	( 457,065)	-
Unamortized bond costs	6,555	-	6,555	-
Deferred amount on refunding	23,239	-	23,239	-
Tap fees	3,000	3,600	6,600	-
Contributed capital	-	51,371	51,371	-
Acquisition and construction of capital assets	-	( 239,913)	( 239,913)	( 75,187)
Net Cash Used by Capital and Related Financing Activities	( 424,271)	( 184,942)	( 609,213)	( 75,187)
<b>Cash Flows From Investing Activities:</b>				
Interest earned	690	879	1,569	684
<b>Net Increase (Decrease) in Cash and Cash Equivalents for the year</b>	( 66,047)	43,415	( 22,632)	17,327
<b>Cash and Cash Equivalents at Beginning of Year</b>	161,850	74,593	236,443	97,435
<b>Cash and Cash Equivalents at End of Year</b>	\$ 95,803	\$ 118,008	\$ 213,811	\$ 114,762
<b>Reconciliation of Net Income (Loss) to Net Cash Provided (Used) by Operating Activities:</b>				
Operating income (loss) for the year	\$ ( 276,623)	\$ ( 290,553)	\$ ( 567,176)	\$ 57,638
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities -				
Depreciation	196,937	164,160	361,097	66,914
Change in assets and liabilities:				
Receivable	( 3,542)	2,938	( 604)	-
Accounts payable/accrued expenses	( 17,126)	( 83,793)	( 100,919)	( 2,231)
Net Cash Provided (Used) By Operating Activities	\$ ( 100,354)	\$ ( 207,248)	\$ ( 307,602)	\$ 122,321

The accompanying notes are an integral part of these financial statements.

**VILLAGE OF ROMEO, MICHIGAN**  
**STATEMENT OF FIDUCIARY NET ASSETS**  
**FIDUCIARY FUNDS**  
**JUNE 30, 2004**

	<u>Agency Funds</u>
<b>ASSETS:</b>	
Due from other sources	<u>\$          40</u>
 <b>LIABILITIES:</b>	
Due to other governmental units	<u>\$          40</u>

The accompanying notes are an integral part of these financial statements.



**VILLAGE OF ROMEO, MICHIGAN**  
**Macomb County, Michigan**

**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2004**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**

**A. Reporting Entity -**

The Village of Romeo, Michigan was incorporated as a General Law Village in 1838, under the provisions of the Constitution and general law of the State of Michigan, with its Charter provided by Act 3 of 1895. The Village is located in Northern Macomb County and covers an area of approximately 1.5 square miles. The Village operates under an elected Village Board, which consists of the President and six Board members, with the daily activities operated by the Village Administrator/Clerk and Treasurer. The Village provides services to its more than 3,700 residents in many areas including law enforcement, water, sewer, cemetery and parks and recreation.

These financial statements present the Village and its component unit, entities for which the Village is considered to be financially accountable. The discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the Village.

**DISCRETELY PRESENTED COMPONENT UNIT -**

**Downtown Development Authority -** The Authority is controlled by a nine member Board, who are appointed by the Village President. The DDA is responsible for the creation of a development and financing plan for the Downtown district or a development area within the district to promote economic growth. The Authority must obtain Village Council approval of all development and financial plans. The annual operating budget and any modification also requires the approval of the Village Board.

**B. Government-wide and fund financial statements -**

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government and its component unit. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

**VILLAGE OF ROMEO**  
**Macomb County, Michigan**

**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2004**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (cont'd):**

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

**C. Measurement focus, basis of accounting and financial statement presentation -**

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year they are due. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. Agency funds, a type of fiduciary fund, are unlike all other types of funds, reporting only assets and liabilities. Therefore, agency funds cannot be said to have a measurement focus. They do, however, use the accrual basis of accounting to recognize receivables and payables.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are normally collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

State shared revenue, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and therefore have been recognized as revenues of the current fiscal period. Property taxes which are levied on July 1, and due on August 31, are recognized as revenue in the year due. All other revenue items are considered to be measurable and available only when cash is received by the Village.

The Village reports the following major governmental funds:

**General Fund** - is the Village's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

**Major Street Fund** - is used to account for the revenues received from the State of Michigan under Act 51, which are specifically earmarked for construction and maintenance of roads designated as Major Streets in the Village.

**VILLAGE OF ROMEO, MICHIGAN**  
**Macomb County, Michigan**

**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2004**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (cont'd):**

The Village reports the following major proprietary funds:

**Water Supply System Fund** - is used to account for the treatment and distribution of water to residential and commercial users.

**Wastewater System Fund** - is used to account for sanitary sewer services provided to the residential and commercial users.

Additionally, the Village reports the following fund types:

**Special Revenue Funds** - are used to account for the proceeds of specific revenue sources requiring separate accounting because of legal or regulation provisions or administrative actions.

**Debt Service Funds** - are used to account for the accumulation of resources for, and the payment of long-term general obligation debt of governmental funds.

**Capital Projects Fund** - is used to account for revenue restricted for the acquisition and/or construction of major capital assets not being financed by proprietary funds.

**Internal Service Fund** - is used to account for the costs of operating and maintaining the Village's motor pool. Charges are made to other funds based on equipment used.

**Agency Fund** - is used to account for assets held by the Village as an agent for other governments and other funds. The Agency Fund is custodial in nature (assets equal liabilities) and does not involve measurement of results of operations.

Private sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for the business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

**VILLAGE OF ROMEO, MICHIGAN**  
**Macomb County, Michigan**

**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2004**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (cont'd):**

Proprietary funds distinguish operating revenue and expenses for nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary funds principal on-going operation. The principal operating revenues of the Enterprise and Internal Services Funds are charges to customers for sales and services. Operating expenses from Enterprise and Internal Service Funds include costs of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the Village's policy to use restricted resources first and the unrestricted resources as they are needed.

**D. Assets, Liabilities and Net Assets or Equity -**

**Deposits and Investments -**

The Village's cash and cash equivalents are considered to be cash on hand, demand deposits, and certificates of deposit with original maturities of three months or less from the date of acquisition.

Investments are stated at fair value, which is determined as follows: (a) short-term investments are reported at cost, which approximates fair value; (b) securities traded on national or international exchanges are valued at the last reported sales price at current exchange rates; (c) investments that do not have established market values are reported at estimated fair value; and (d) cash deposits are reported at carrying amount which reasonably approximates fair value.

State statutes authorize the Village to deposit in the accounts of federally insured banks, credit unions, and savings and loan associations, and to invest in obligations of the U.S. Treasury, certain commercial paper, repurchase agreements, bankers acceptances, and mutual funds composed of otherwise legal investments (except those with a fluctuating per share value).

**Receivables and Payables -**

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances".

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

All trade and property tax receivables are shown net of an allowance for uncollectible.

**VILLAGE OF ROMEO, MICHIGAN**  
**Macomb County, Michigan**

**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2004**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (cont'd):**

**Inventories and Prepaid Items -**

All inventories are valued at cost using the first in/first out (FIFO) method. Inventories of governmental funds are recorded as expenditures when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

**Property Tax Calendar -**

The Village's property tax is levied as of July 1 on the assessed valuation of property located in the Village as of the preceding December 31. The taxes are due on July 31 with final collection date as of February 28, after which they are added to the delinquent tax roll.

**Capital Assets -**

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the Village as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years, except for items capitalized in prior years in the proprietary funds which utilized a \$500 capitalized threshold. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

As permitted by GASB Statement No. 34, the Village has elected not to report governmental infrastructure assets (principally roads and sidewalks) acquired prior to July 1, 2003.

Capital assets of the primary government are depreciated using the straight line method over the following estimated useful lives:

Buildings	10-50
Land improvements	20
Utility systems	40-50
Machinery/equipment/vehicles	5-15

**VILLAGE OF ROMEO, MICHIGAN**  
**Macomb County, Michigan**

**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2004**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (cont'd):**

**Compensated Absences -**

In accordance with contracts negotiated with the various employee groups of the Village, individual employees have vested rights upon termination of employment to receive payment for unused vacation and sick leave under formulas and conditions specified in the contracts.

**Long-Term Obligations -**

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statements of net assets. Bond premiums and discounts, as well as issuance costs, if significant, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financial uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

**Fund Equity -**

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

**Estimates -**

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY:**

**Budgetary Information -**

Annual budgets are adopted for the General and Special Revenue Funds on a basis consistent with accounting principles generally accepted in the United States of America and are not significantly different from the modified accrual basis used to reflect actual results.

**VILLAGE OF ROMEO, MICHIGAN**  
**Macomb County, Michigan**

**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2004**

**NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY - (cont'd):**

Prior to June 1, the Administrator/Clerk prepares, from data submitted from administration and officials of the Village, proposed budgets for the year commencing the following July 1. The operating budgets include proposed expenditures and resources to finance them. A public hearing is conducted to obtain the taxpayers' comments, and then prior to June 30, the budgets are legally enacted through passage of a resolution.

The General Fund budget was approved at the activity and Special Revenue Funds budgets were approved at the function level, however, they are maintained at the account level for control purposes.

The Village does not employ encumbrance accounting as an extension of formal budgetary integration. All annual appropriations lapse at year end.

Budget amounts are reported as originally adopted with no amendments made by the Village Council during the year.

Michigan Public Act 621 of 1978 Section 18, as amended, provides that a local government unit shall not incur expenditures in excess of the amount appropriated at the legally enacted level.

During the year ended June 30, 2004, the Village (primary government) incurred expenditures in the General Fund and Special Revenue Funds, which were in excess of the amounts appropriated at the function level as follows:

<u>Fund Type/Function/Activity</u>	<u>Appropriations</u>	<u>Expended</u>	<u>Variance</u>
General Fund -			
Village Hall	\$ 265,000	\$ 292,538	\$ 27,538
Police Department	830,200	904,460	74,260
Department of Public Works	134,500	201,747	67,247
Transfers Out	956,818	1,034,643	77,825
Special Revenue -			
Major Street Fund -			
Transfers Out	47,300	59,353	12,053
Cemetery Fund	79,000	193,393	114,393
Public Improvement Fund -			
Transfers Out	6,000	76,585	70,585

In addition a budget was not adopted for Municipal Street Fund, a Special Revenue Fund.

**Other -**

Although the Village made Electronic Fund Transactions an Automated Clearing House (ACH) policy had not been adopted as required by Public Act 738 of 2002.

The Village did not have certifications from all of the financial institutions it deals with.

**VILLAGE OF ROMEO, MICHIGAN**  
**Macomb County, Michigan**

**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2004**

**NOTE 3 - DEPOSITS AND INVESTMENTS:**

At year end, the carrying amount of the Village Reporting Entity's deposits and investments is \$3,504,891 as follows:

	<u>Primary Government</u>	<u>Component Unit</u>	<u>Reporting Entity</u>
Cash on hand -			
Petty Cash and Cash on Hand	\$ 440	\$ -	\$ 440
Deposits with Financial Institutions -			
Checking/Money Market	68,517	84,379	152,896
Savings/Certificate of Deposit	<u>3,333,062</u>	<u>76,198</u>	<u>3,409,260</u>
Total Deposits	3,302,019	160,577	3,462,596
Investments -			
U.S. Government Securities	<u>42,295</u>	-	<u>42,295</u>
Grand Total	<u>\$ 3,344,314</u>	<u>\$ 160,577</u>	<u>\$ 3,504,891</u>
Reconciliation To Combined Balance Sheet			
Reported as Cash and Cash Equivalents -			
Petty Cash and Cash on Hand	\$ 440	\$ -	\$ 440
Cash in Checking/Money Market	68,517	84,379	152,896
Cash in Saving	<u>2,838,651</u>	<u>76,198</u>	<u>2,914,849</u>
Total Cash and Cash Equivalents	<u>2,907,608</u>	<u>160,577</u>	<u>3,068,185</u>
Reported on Combined Balance Sheet			
Reported as Investments -			
CD's	394,411	-	394,411
U.S. Government Securities	<u>42,295</u>	-	<u>42,295</u>
Total Investments Reported on	<u>436,706</u>	-	<u>436,706</u>
Combined Balance Sheet			
Grand Total-Combined Balance Sheet	<u>\$ 3,344,314</u>	<u>\$ 160,577</u>	<u>\$ 3,504,891</u>

**Deposits -**

Act 217 PA 1982 as amended authorizes the Village to deposit in certificates of deposit, savings accounts, depository accounts or depository receipts of a state or nationally chartered bank or a state or federally chartered savings and loan association, savings bank or credit union whose deposits are insured by an agency of the United States government and which maintains a principal office or branch office located in this State under the laws of this State or the United States, but only if the bank, savings and loan association, savings bank or credit union is eligible to be a depository of surplus funds belonging to the State under Section 5 or 6 of Act 105 of the Public Acts of 1855, as amended, by section 21.145 and 21.146 of the Michigan Compiled Laws.

Federal Deposit Insurance Corporation (FDIC) regulations provide that deposits of governmental units are to be separately insured for the amount of \$100,000 for deposits in an insured bank for savings and demand deposits. Furthermore, if specific deposits are regulated by statute or bond indenture, these specific deposits are to be separately insured for the amount of \$100,000.



**VILLAGE OF ROMEO, MICHIGAN**  
**Macomb County, Michigan**

**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2004**

**NOTE 3 - DEPOSITS AND INVESTMENTS - (cont'd):**

As of June 30, 2004 the bank balance of the Village's deposits were \$3,528,668 of which \$1,108,900 was FDIC insured with the balance of \$2,419,768 uninsured and uncollateralized.

**Investments -**

Act 20 PA 1994 as amended by Act 1997 PA 1999 authorizes the Village to invest surplus funds in bonds, securities and other direct obligation of the United States government or an agency or instrumentality of the United States; certificates of deposit, savings accounts, deposit accounts or depository receipts of a financial institution only if the bank, savings and loan association, or credit union is eligible to be a depository of funds belonging to the State; bankers' acceptance of United States banks; commercial paper rated at the time of purchase within the highest classification established by not less than two standard rating services, which mature not more than 270 days after the date of purchase; mutual funds registered under the investment company Act of 1940, with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation, investment pools through an interlocal agreement under the Urban Cooperation Act of 1967, investment pools organized under the Surplus Funds Investment Pool Act, 1982 PA 3657, 129.111 to 129.118.

Village investments can be classified into three categories to give an indication of the level of risk assumed by the Village. Category 1 includes investments that are insured or registered or for which the securities are held by the Village or its agent in the Village's name. Category 2 includes uninsured and unregistered investments for which the securities are held by a counterparty's trust department or agent in the Village's name. Category 3 includes uninsured and unregistered investments for which the securities are held by a counterparty's trust department or agent but not in the Village's name.

	<u>Categories</u>			<u>Carrying</u>	<u>Market</u>
	<u>1</u>	<u>2</u>	<u>3</u>	<u>Value</u>	<u>Value</u>
Government Security	\$ -	\$ 42,295	\$ -	\$ 42,295	\$ 42,295

**NOTE 4 - TAXES:**

The Village property taxes are levied each July on the assessment valuation of the property in the Village as of the preceding December 31, as adjusted by the March and July Board of Review.

Assessed values are established annually by the respective Village/Township and are equalized by the State at an estimated percentage of the current market value. Real and personal property for the Village of Romeo for the fiscal year 2004 had a taxable value of \$266,487,405. The millage rates levied by the Village were 10.000 for General Operating and .489 for Municipal Streets.

The County of Macomb has established a Tax Collection Revolving Fund whereby all local units of government are paid for the delinquent real property taxes each year.

**VILLAGE OF ROMEO, MICHIGAN**  
Macomb County, Michigan

**NOTES TO FINANCIAL STATEMENTS**  
JUNE 30, 2004

**NOTE 5 - RECEIVABLES:**

	Governmental Activities	Business-Type Activities
Taxes	\$ 75,587	\$ -
Accounts and Interest	8,051	277,766
Intergovernmental	<u>177,396</u>	<u>-</u>
	261,034	277,766
Less - Allowance for Uncollectible	<u>(34,163)</u>	<u>-</u>
	<u>\$ 226,871</u>	<u>\$ 277,766</u>

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not earned. At the end of the current fiscal year the component of deferred revenue and unearned revenue reported in the governmental funds was as follows:

	<u>Unavailable</u>	<u>Unearned</u>
General Fund - Property Taxes	<u>\$ 66,715</u>	<u>\$ -</u>

**NOTE 6 - INTERFUND RECEIVABLE, PAYABLE AND TRANSFERS:**

The composition of interfund balances as of June 30, 2004:

**Due To/From Other Funds -**

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Major Street	\$ 893
	Municipal Street	6,922
	Inspection	55
	Wastewater System	447,139
	Water Supply and Sewage Disposal	38,471
	Motor Vehicle and Equipment Pool	1,024
Local Street	Major Street	41,152
	Municipal Street	12,766
Cemetery	General	46,757
Water Supply	Wastewater System	61,166

**VILLAGE OF ROMEO, MICHIGAN**  
Macomb County, Michigan

**NOTES TO FINANCIAL STATEMENTS**  
JUNE 30, 2004

**NOTE 6 - INTERFUND RECEIVABLE, PAYABLE AND TRANSFERS - (cont'd):**

Motor Vehicle and Equipment Pool	Major Street	515
	Municipal Street	2,997
	Cemetery	9,601
	Wastewater System	2,093
	Water Supply	<u>4,782</u>
		<u>\$ 676,333</u>

**Due To/From Primary Government -**

General Fund	Downtown Authority Fund	<u>\$ 50,791</u>
--------------	-------------------------	------------------

**Transfers From/To Other Funds -**

<u>Transfers In</u>	<u>Transfers Out</u>	<u>Amount</u>
Local Street Fund	Major Street Fund	\$ 32,450
	Municipal Street Fund	217,149
Cemetery Fund	General Fund	108,926
	Motor Vehicle and Equipment Pool	30,000
Public Improvement Fund	General Fund	290,000
1994 Transportation Bond Fund	Major Street	26,903
	Local Street	17,458
1995 G.O. Bond Debt Fund	General Fund	100,936
Water Supply System Fund	General Fund	478,262
Wastewater Fund	General Fund	52,519
	Public Improvement Fund	76,585
Motor Vehicle and Equipment Pool Fund	General Fund	<u>4,000</u>
Total Transfers		<u>\$1,435,188</u>

**VILLAGE OF ROMEO, MICHIGAN**  
Macomb County, Michigan

**NOTES TO FINANCIAL STATEMENTS**  
JUNE 30, 2004

**NOTE 7 - CAPITAL ASSETS:**

Capital asset activity of the primary government for the year ended June 30, 2004 was as follows:

	July 1, 2003 <u>Balance</u>	<u>Additions</u>	<u>Deletions</u>	June 30, 2004 <u>Balance</u>
<b>Governmental activities:</b>				
Capital assets, not being depreciated:				
Land	\$ 681,473	\$ -	\$ -	\$ 681,473
Capital assets, being depreciated:				
Land improvements	212,659	108,886	-	321,545
Buildings and improvements	1,617,900	-	-	1,617,900
Machinery and equipment	568,273	67,345	-	635,618
Vehicles	1,072,485	46,208	-	1,118,693
Sidewalks	-	75,644	-	75,644
Total capital assets being depreciated	<u>3,471,317</u>	<u>298,083</u>	<u>-</u>	<u>3,769,400</u>
Less accumulated depreciation for:				
Land improvements	131,179	11,725	-	142,904
Buildings and improvements	488,475	31,638	-	520,113
Machinery and equipment	316,856	42,729	-	359,585
Vehicles	659,103	93,792	-	752,895
Total accumulated depreciation	<u>1,595,613</u>	<u>179,884</u>	<u>-</u>	<u>1,775,497</u>
Total capital assets being depreciated, net	<u>1,875,704</u>	<u>118,199</u>	<u>-</u>	<u>1,993,903</u>
Governmental activities capital assets, net	\$ <u>2,557,177</u>	\$ <u>118,199</u>	\$ -	\$ <u>2,675,376</u>
<b>Business-type Activities:</b>				
Capital assets, not being depreciated:				
Land	\$ 15,316	\$ -	\$ -	\$ 15,316
Construction in progress	850,630	239,913	-	1,090,543
	<u>865,946</u>	<u>239,913</u>	<u>-</u>	<u>1,105,859</u>
Capital assets, being depreciated:				
Buildings and improvements	7,285,842	-	-	7,285,842
Utility systems	7,870,222	-	-	7,870,222
Machinery and equipment	1,669,798	-	-	1,669,798
Total capital assets being depreciated	<u>16,825,862</u>	<u>-</u>	<u>-</u>	<u>16,825,862</u>
Less accumulated depreciation for:				
Buildings and improvements	\$ 3,513,425	\$ 170,139	\$ -	\$ 3,683,564
Utility systems	1,755,801	175,129	-	1,930,930
Machinery and equipment	1,594,375	15,829	-	1,610,204
Total accumulated depreciation	<u>6,863,601</u>	<u>361,097</u>	<u>-</u>	<u>7,224,698</u>
Total capital assets being depreciated, net	<u>9,962,261</u>	<u>361,097</u>	<u>-</u>	<u>9,601,164</u>
Business activities capital assets, net	\$ <u>10,823,207</u>	\$ <u>(121,184)</u>	\$ -	\$ <u>10,702,023</u>

**VILLAGE OF ROMEO, MICHIGAN**  
**Macomb County, Michigan**

**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2004**

**NOTE 7 - CAPITAL ASSETS - (cont'd):**

Depreciation expense was charged to functions/programs of the primary government as follows:

<b>Governmental activities:</b>	
General Government	\$ 25,064
Public Safety	36,849
Public Works	<u>51,057</u>
Total depreciation expense-governmental activities	<u>\$ 112,970</u>
<b>Business-type activities:</b>	
Wastewater	\$ 164,160
Water Supply System	<u>196,937</u>
Total depreciation expense-business-type activities	<u>\$ 361,097</u>

In addition there was depreciation of \$66,914 in the Motor Pool Fund

**NOTE 8 - LONG-TERM DEBT:**

The following is a summary of changes in the long-term liabilities (including current portion) of the Primary Government for the year ended June 30, 2004:

	July 1, 2003	Additions	Reductions	June 30, 2004	Due Within One Year
<b>Governmental Activities:</b>					
1994 Transportation Bond	\$ 265,000	\$ -	\$ 30,000	\$ 235,000	\$ 30,000
1995 General Obligation Unlimited Tax Bonds	685,000	-	65,000	620,000	70,000
1994 Harmon Cable Note	41,239	-	8,039	33,170	8,742
Parking Lot Land Contract	21,938	-	5,017	16,921	5,458
Accrued Vacation and Sick Pay	91,795	-	1,709	90,086	-
Lighting Project Capital Lease	77,676	-	17,455	60,421	15,765
Vehicle Capital Expense	<u>46,414</u>	<u>-</u>	<u>22,542</u>	<u>23,872</u>	<u>23,872</u>
	<u>1,229,282</u>	<u>-</u>	<u>129,812</u>	<u>1,079,470</u>	<u>153,867</u>
<b>Business-type Activities:</b>					
1998 General Obligation Unlimited Tax Refunding Bonds	1,735,000	-	265,000	1,470,000	270,000
Accrued Vacation and Sick Pay	31,970	-	4,569	27,101	-
Installment Purchase Contract Booster Pump	633,755	-	62,555	570,993	63,682
Deferred Amounts for:					
Refunding Loss	<u>(116,517)</u>	<u>-</u>	<u>(29,794)</u>	<u>(146,311)</u>	<u>-</u>
	<u>2,284,211</u>	<u>-</u>	<u>302,918</u>	<u>1,981,293</u>	<u>333,682</u>
	<u>\$ 3,513,493</u>	<u>\$ -</u>	<u>\$ 432,742</u>	<u>\$ 3,060,751</u>	<u>\$ 487,549</u>

**VILLAGE OF ROMEO, MICHIGAN**  
**Macomb County, Michigan**

**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2004**

**NOTE 8 - LONG-TERM DEBT - (cont'd):**

Significant details regarding outstanding long-term debt (including current portions) are presented as follows:

**1994 Transportation Bonds:**

The 1994 \$440,000 Transportation Bonds, dated October 1, 1994, due in annual installments ranging from \$35,000 to \$45,000 through October 1, 2009, with interest ranging 5.65 to 5.75 percent payable semi-annually. \$ 235,000

**1995 General Obligation Unlimited Tax Bonds:**

The 1995 \$995,000 General Obligation Unlimited Tax Bonds, dated October 1, 1995, due in annual installments ranging from \$70,000 to \$120,000 through May 1, 2010 with interest ranging from 5.15 to 5.70 percent, payable semi-annually. 620,000

**1994 Harron Cable Note:**

The 1994 \$95,000 Harron Cable Note, dated January 19, 1994, due in monthly installments of \$905, with interest of 7.25 percent payable monthly through May 19, 2008. 33,170

**Parking Lot Land Contract:**

The Village purchased a parking lot for \$125,000, dated April 22, 1999, on a land contract. During January 2000, an additional payment of \$80,000 was made to be applied to the principal balance owing. Payments are due in monthly installments of \$566, with interest 9.0 percent payable monthly through April 22, 2007. 16,921

**Vehicle Capital Lease:**

The Village entered into a lease purchase agreement for three police vehicles in the amount of \$71,694 on September 12, 2002. The first annual payment of \$25,280 was made on the date of purchase. The remaining balance is due in installments of \$25,282, including interest of 5.9 percent payable annually through September 12, 2004. 23,872

**VILLAGE OF ROMEO, MICHIGAN**  
**Macomb County, Michigan**

**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2004**

**NOTE 8 - LONG-TERM DEBT - (cont'd):**

**Lighting Project Capital Lease:**

The Village entered into a lease purchase agreement for a new exterior lighting retrofit project in the amount of \$88,500 on October 25, 2002. Payments are due in monthly installments of \$1,724, with interest of 6.54 percent payable monthly through October 1, 2007.

\$ 60,421  
989,384

**Enterprise Fund Water Supply System:**

The Village of Romeo has a General Obligation Unlimited Tax Refunding Bond issue outstanding at June 30, 2004, from which the proceeds were used for Water System improvements and expansion.

**1998 General Obligation Unlimited Tax Refunding Bonds:**

The 1998 \$2,470,000 General Obligation Unlimited Tax Refunding Bonds, dated March 1, 1998, were issued to advance refund a portion of the 1989 General Obligation Unlimited Tax Bonds, dated September 1, 1989 call of \$1,175,000 and the 1992 General Obligation Water Supply Unlimited Tax Bonds, dated June 1, 1992, call of \$1,030,000. The net proceeds, after deducting issuance cost, were deposited in an escrow account and used to purchase U.S. Government Securities. Accordingly, the trust account assets and liabilities for the defeased bond issue are not included in the Village's financial statements. At June 30, 2004, \$2,055,000 of the debt defeased "in substance" remains outstanding.

The advance refunding resulted in an economic gain (difference between present value of the debt service payments on the old and new debt) of \$95,284. The 1998 bonds are due in annual installments of \$95,000 to \$270,000 through October 1, 2012, with interest ranging between 4.30 to 4.85 percent, payable semi-annually.

1,470,000

**Contracts Payable:**

The Village entered into an installment purchase contract, dated October 3, 2001, to finance the construction of booster pumps. Payments are due in semi-annual installments of \$45,182 with interest of 4.45 percent payable monthly through October 19, 2011.

570,903  
2,040,903

**VILLAGE OF ROMEO, MICHIGAN**  
Macomb County, Michigan

**NOTES TO FINANCIAL STATEMENTS**  
JUNE 30, 2004

**NOTE 8 - LONG-TERM DEBT - (cont'd):**

**Accrued Vacation and Sick Pay:**

In accordance with contracts negotiated with the various employee groups of the Village, individual employees have vested rights upon termination of employment to receive payments for unused vacation and sick leave under formulas and conditions specified in the contracts. The Governmental Fund portion of \$90,086 as well as the Enterprise Fund portion of \$27,101 has been recorded in the government-wide financial statements as a long-term liability.

\$ 117,187

\$3,147,474

**Annual Debt Requirements -**

The annual requirements to pay the debt outstanding at June 30, 2004, for the following bonds, notes and leases, (excluding accrued vacation and sick) of the Primary Government, are as follows:

Year	Governmental Activities						Business-Type Activities			
	G.O. Bonds		Notes		Leases		G.O. Bonds		General	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2005	\$ 100,000	\$ 43,712	\$ 14,210	\$ 3,418	\$ 39,637	\$ 4,944	\$ 270,000	\$ 60,223	\$ 65,682	\$ 24,683
2006	105,000	39,059	15,399	2,148	18,309	2,429	270,000	48,510	63,637	21,727
2007	115,000	32,059	15,531	935	19,544	1,145	270,000	36,670	71,727	18,639
2008	125,000	25,292	4,931	479	6,803	93	95,000	28,525	74,953	15,412
2009	140,000	20,569	-	-	-	-	100,000	24,338	78,385	12,039
2010-2013	270,000	17,412	-	-	-	-	465,000	45,478	211,518	14,329
	<u>\$ 855,000</u>	<u>\$ 177,433</u>	<u>\$ 40,091</u>	<u>\$ 7,130</u>	<u>\$ 64,203</u>	<u>\$ 6,611</u>	<u>\$1,470,000</u>	<u>\$243,490</u>	<u>\$270,903</u>	<u>\$106,829</u>

**NOTE 9 - EMPLOYEE PENSION PLAN:**

**Plan Description -**

The Village of Romeo participates in the Municipal Employees Retirement System (MERS), a multiple employer state-wide, public employee defined benefit pension plan created under Public Act 135 of 1945, and now operates under Public Act 220 of 1996, and the MERS Plan Document as revised. MERS was established to provide retirement, survivor and disability benefits on a voluntary basis to the State of Michigan's local government employees. Act No. 427 of the Public Acts of 1984, as amended, establishes and amends the benefits provisions of the participants in MERS. The Municipal Employees Retirement System of Michigan issues a publicly available financial report that includes financial statements and required supplementary information for MERS. That report may be obtained by writing to the Municipal Employees Retirement System of Michigan, 447 N. Canal Road, Lansing, Michigan 48917 or by calling (800) 767-6377.



**VILLAGE OF ROMEO, MICHIGAN**  
**Macomb County, Michigan**

**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2004**

**NOTE 9 - EMPLOYEE PENSION PLAN - (cont'd):**

**Funding Policy -**

The plan adopted by the Village Council requires no member contributions. The Village is required to contribute at an actuarially determined rate; the weighted average rate for 2004 was 2.36%-20.94%. The contribution requirements of plan members and the Village are established and may be amended by the Village, depending on the MERS contribution program adopted by the Village.

**Annual Pension Costs -**

For fiscal 2004, the Village's annual pension cost of \$95,550 for MERS was equal to the Village's required and actual contributions. The required contribution was determined as part of the December 31, 2001 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) a rate of return on the investment of present and future assets of 8.0% (b) projected salary increases of 4.5% per year compounded annually, attributable to inflation (c) additional projected salary increases ranging from 4.5% to 8.66% per year, depending on age, attributable to seniority/merit and (d) the assumption that benefits will increase 2.5% annually for employees under benefit E-1 or E-2. The actuarial value of MERS assets was determined using techniques on a basis of evaluation method that assumes the fund earns the expected rate of return (8%) and includes as adjustment to reflect market value. Unfunded actuarial accrued liabilities, if any, were amortized as a level percent of payroll over a period of 30 years.

**Three-Year Trend Information**

<u>Fiscal Year Ending June 30,</u>	<u>Annual Pension Costs (APC)</u>	<u>Percentage of APC Contribution</u>	<u>Net Pension Obligation</u>
2002	\$ 77,071	100 %	\$ -
2003	88,272	100	-
2004	95,550	100	-

**Schedule of Funding Progress**

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) Entry Age (b)</u>	<u>Unfunded (Over funded) Accrued Liability (UAAL) (b-a)</u>	<u>Funded Ratio AAL (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a % of Covered Payroll (b-a)/c)</u>
2001	2,651,545	3,093,651	442,106	86	962,397	46
2002	2,709,517	3,407,524	698,007	80	960,809	73
2003	2,874,370	3,619,954	745,584	79	1,037,276	72

**VILLAGE OF ROMEO, MICHIGAN**  
**Macomb County, Michigan**

**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2004**

**NOTE 10 - POST RETIREMENT BENEFITS:**

In addition to the pension benefits described in Note 9, the Village of Romeo provides post-retirement health care and life insurance benefits to all non-unionized employees who retire from the Village on or after attaining age 55 with at least 10 years of service. Expenditures for post-retirement health care and life insurance benefits are recognized on a pay-as-you-go basis. For the year ended June 30, 2004 these costs amounted to approximately \$136,847 with eleven eligible participants.

**NOTE 11 - WATER PURCHASES AGREEMENT:**

On December 6, 1978, the Village of Romeo entered into an agreement with the City of Detroit, for the purchase of water for the Ford Motor Company. The agreement as amended, among other things, requires the Village to pay for a minimum of 11.0 million cubic feet of water at such rates as the City of Detroit may establish, assuming such rates are reasonable in relation to the cost incurred by the City of Detroit. The term of the agreement is for a period of at least thirty-five (35) years.

In conjunction the Village of Romeo entered into an agreement, dated October 30, 1978, with the Ford Motor Company who agreed to purchase water from the Village. The agreement, as amended in November, 1987, among other items, requires the Ford Motor Company to purchase 11.0 million cubic feet of water at such rates as established by the Village Board. The term of the agreement is for a period of thirty-five (35) years.

**NOTE 12 - WASTEWATER TREATMENT FACILITY:**

The Village has entered into an agreement, dated September 21, 1977, with Bruce Township whereby the Township purchased 15.93% of the Wastewater Treatment Plant's capacity. Under the agreement the Township funded 15.93% of the Village's share of construction costs and assumes certain annual operating costs, namely:

- a) 15.93% of the principal and interest owed on the former sewage treatment facility;
- b) 15.93% of fixed operating costs;
- c) A portion of the variable operating costs determined by the Township's percentage of flow in relation to the allocated Township capacity.

For the year ended June 30, 2004, the Township's portion of operating expenses is \$114,327.

**VILLAGE OF ROMEO, MICHIGAN**  
**Macomb County, Michigan**

**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2004**

**NOTE 13 - PRINCIPAL TAXPAYER AND UTILITY CUSTOMER:**

The Ford Motor Company Engine Division, located within the Village, provides a significant portion of both property tax and utility revenues. Such revenues and the approximate percentage of the total individual revenues for the year ended June 30, 2004, are summarized below:

	<u>Revenues Provided</u>	<u>Approximate Percentage</u>
Property Taxes	\$ 1,159,079	42 %
Wastewater Treatment Service	92,944	19
Water Purchases	88,564	27

**NOTE 14 - RESTRICTED ASSETS:**

The restricted assets of \$12,086 in the Wastewater System Fund and \$3,134 in the Water System Fund are for capital improvements.

**NOTE 15 - DEFERRED COMPENSATION:**

The Village offers all of its employees a deferred compensation plan created in accordance with the Internal Revenue Code, Section 457. The assets of the plans were held in trust, (custodial account or annuity contract) as described in IRC Section 457 (g) for the exclusive benefit of the participants (employees) and their beneficiaries. The custodian thereof for the exclusive benefit of the participants holds the custodial account for the beneficiaries of this Section 457 plan, and the assets may not be diverted to any other use. The administrators are agents of the employer the Village of Romeo for the purposes of providing direction to the custodian of the custodial account from time to time for the investment of the funds held in the account, transfer for assets to or from the account and all other matters. In accordance with the provisions of GASB Statement No. 32, plan balances and activities are not reflected in the Village's financial statements.

**NOTE 16 - INTERGOVERNMENTAL AGREEMENT:**

On February 9, 1999 the Village of Romeo signed an agreement with the Township of Bruce. The agreement provides that the Township will provide Fire, Basic Life Support and Advanced Life Support Services to the Village for all fire and emergency medical calls originating within the Village. The Township acquired title to, and obtained ownership interest in, all vehicles and equipment owned by the Village for one (\$1.00) dollar. In the event this agreement is not renewed by the parties or is otherwise terminated, the Township shall re-convey all then existing equipment and vehicles, which it previously purchased from the Village for one (\$1.00) dollar. The Village will pay the Township a base rent plus an incremental rent. The agreement is for a term of four (4) years and five (5) months ending on June 30, 2004. The agreement is automatically renewed for successive four (4) years, unless either party notifies the other party twenty-four (24) months prior to the expiration of the agreement.

**VILLAGE OF ROMEO, MICHIGAN**  
**Macomb County, Michigan**

**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2004**

**NOTE 17 - RISK MANAGEMENT:**

The Village is exposed to various risks of loss related to property loss, torts, errors and omissions, injuries to employees, medical benefits provided to employees, etc. The Village has purchased issuance coverage for each of these types of losses, however would be responsible should limits of coverage be exceeded.

**NOTE 18 - PRIOR PERIOD ADJUSTMENT:**

**Governmental Funds:**

A prior period adjustment of \$83,001 was made in the General Fund to recognize nonexchange state shared revenues collected within 90 days, therefore increasing fund balance as reported at June 30, 2003 from \$1,584,482 to \$1,667,483.

**Proprietary Funds:**

A prior period adjustment of \$946,503 and \$3,116,680 was recorded to the Water Supply System and WasteWater Funds retained earnings at June 30, 2003, to discontinue the reporting of contributed capital as a separate component of fund equity as required by GASB No. 33.

A prior period adjustment of \$84,091 was made in the Internal Service Fund (which is included in the governmental activities) to discontinue the reporting of contributed capital as a separate component of fund equity as required by GASB No. 33.

**NOTE 19 - RESTATEMENTS:**

As of and for the year ended June 30, 2004, the Village implemented the following Governmental Accounting Standards Board pronouncements:

**Statements**

- No. 33 - *Accounting and Financial Reporting for Nonexchange Transactions*
- No. 34 - *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*
- No. 36 - *Recipient Reporting for Certain Shared Nonexchange Revenues - An Amendment of GASB No. 33*
- No. 37 - *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus*
- No. 38 - *Certain Financial Statement Note Disclosures*

**Interpretation**

- No. 6 - *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*

**VILLAGE OF ROMEO, MICHIGAN**  
**Macomb County, Michigan**

**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2004**

**NOTE 19 - RESTATEMENTS - (cont'd):**

The above pronouncements are all related to the new financial reporting requirements for all state and local governments. The more significant of the changes required by the new standards include:

- Management's discussion and analysis;
- Basic financial statements that include:
- Government-wide financial statements, prepared using the economic resources measurement focus and the accrual basis of accounting;
- Fund financial statements, consisting of a series of statements that focus on a government's major governmental funds and enterprise funds;
- Schedules to reconcile the fund financial statements to the government-wide financial statements;
- Required supplementary information, including certain budgetary schedules.

As a result of implementing these pronouncements for the fiscal year ended June 30, 2004, the following restatements were made to net assets at June 30, 2003:

*Government-wide financial statements.* Beginning net assets for governmental activities were determined as follows:

Fund balances of general, special revenue, debt service and capital projects funds as of 6/30/03	\$ 3,614,063
Prior period adjustment (See note 18)	<u>83,001</u>
	3,697,064
Add: capital assets	3,285,424
Add: prepaid expenses	71,913
Add: delinquent personal property taxes	55,163
Add: governmental internal service fund	406,722
Less: allowance for taxes receivable	( 27,582)
Less: accumulated depreciation on capital assets	( 1,025,292)
Less: notes/leases payable	( 1,137,487)
Less: accrued interest on bond/notes payable	( 13,090)
Less: accrued compensated absences	<u>( 91,795)</u>
Net Assets at 6/30/03	<u>\$ 5,221,040</u>

**NOTE 20 - SUBSEQUENT EVENTS:**

On December 15, 2004, the Village issued General Obligation Limited Tax Bonds in the amount of \$6,300,000 with interest of 4.0-6.0%, payable annually through October 1, 2028 for the expansion and upgrade to the Waste Water Treatment Plant.

**NOTE 21 - CONTINGENT LIABILITIES:**

One of the Village's large commercial entities is claiming that they were inadvertently double assessed for certain personal property taxes. The claim has been dismissed by the Michigan Tax Tribunal and the Michigan Court of Appeals. The entity has filed a motion for reconsideration with the Michigan Court of Appeals. Should the entity prevail, the Village could be required to refund approximately \$740,000 of taxes.

## **REQUIRED SUPPLEMENTARY INFORMATION**

# VILLAGE OF ROMEO, MICHIGAN

## GENERAL FUND SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE BUDGET AND ACTUAL FOR THE YEAR ENDED JUNE 30, 2004

	Original/ Final Budget	Actual	Variance with Final Budget Positive (Negative)
<b>Revenues:</b>			
Property taxes	\$ 2,664,232	\$ 2,597,621	\$ ( 66,611)
Licenses and permits	1,000	1,678	678
Intergovernmental -			
State	468,000	407,079	( 60,921)
Fines and forfeits	40,000	47,581	7,581
Interest and rents	20,000	82,433	62,433
Other	500	15,002	14,502
	<u>3,193,732</u>	<u>3,151,394</u>	<u>( 42,338)</u>
<b>Expenditures:</b>			
General Government -			
Legislative	19,350	12,851	6,499
Elections	8,000	5,436	2,564
Clerk / Administrator	89,500	88,950	550
Treasurer	45,650	45,124	526
Village Hall	265,000	292,538	( 27,538)
	<u>427,500</u>	<u>444,899</u>	<u>( 17,399)</u>
Public Safety -			
Fire Department	337,564	324,436	13,128
Police Department	830,200	904,460	( 74,260)
	<u>1,167,764</u>	<u>1,228,896</u>	<u>( 61,132)</u>
Public Works -			
Department of Public Works	134,500	201,747	( 67,247)
Sanitation	174,850	169,396	5,454
	<u>309,350</u>	<u>371,143</u>	<u>( 61,793)</u>
Other	132,000	125,477	6,523
Capital Outlay	43,000	27,766	15,234
Debt Service	157,300	32,069	125,231
Total Expenditures	<u>2,236,914</u>	<u>2,230,250</u>	<u>6,664</u>
Excess of revenues over expenditures	<u>956,818</u>	<u>921,144</u>	<u>( 35,674)</u>

Continued

VILLAGE OF ROMEO, MICHIGAN

GENERAL FUND  
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL  
FOR THE YEAR ENDED JUNE 30, 2004

	Original/ Final Budget	Actual	Variance with Final Budget Positive (Negative)
Other Financing Uses:			
Transfer Out -	<u>\$ ( 956,818)</u>	<u>\$ ( 1,034,643)</u>	<u>\$ ( 77,825)</u>
Excess of revenues under expenditures and other uses	<u>-</u>	<u>( 113,499)</u>	<u>( 113,499)</u>
Fund Balance at beginning of year	1,584,482	1,584,482	-
Prior period adjustment	<u>-</u>	<u>83,001</u>	<u>83,001</u>
Fund Balance at beginning of year as restated	<u>1,584,482</u>	<u>1,667,483</u>	<u>83,001</u>
Fund Balance at end of year	<u>\$ 1,584,482</u>	<u>\$ 1,553,984</u>	<u>\$ ( 30,498)</u>

Concluded



# VILLAGE OF ROMEO, MICHIGAN

## MAJOR STREET FUND SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE BUDGET AND ACTUAL FOR THE YEAR ENDED JUNE 30, 2004

	Original/ Final Budget	Actual	Variance with Final Budget Positive (Negative)
<b>Revenues:</b>			
Intergovernmental -			
State - Act 51	\$ -	\$ 129,801	\$ 129,801
Interest and rent	-	13,683	13,683
	<u>104,000</u>	<u>143,484</u>	<u>39,484</u>
<b>Expenditures:</b>			
Public Works -			
Routine maintenance		31,366	
Traffic markers and street signs		14	
Winter maintenance		7,707	
Village beautification		2,160	
Sidewalks		3,881	
	<u>56,700</u>	<u>45,128</u>	<u>11,572</u>
Excess of revenues over expenditures	<u>47,300</u>	<u>98,356</u>	<u>51,056</u>
<b>Other Financing Uses:</b>			
Operating transfers out -			
Local Street	( 21,000)	( 32,450)	( 11,450)
1994 Transportation Bonds	( 26,300)	( 26,903)	( 603)
	<u>( 47,300)</u>	<u>( 59,353)</u>	<u>( 12,053)</u>
Excess of revenues over expenditures and other uses	-	39,003	39,003
Fund Balance at beginning of year	<u>959,027</u>	<u>959,027</u>	<u>-</u>
Fund Balance at end of year	<u>\$ 959,027</u>	<u>\$ 998,030</u>	<u>\$ 39,003</u>

## **SUPPLEMENTARY INFORMATION**

# VILLAGE OF ROMEO, MICHIGAN

## COMBINING BALANCE SHEET NONMAJOR GOVERNMENTAL FUNDS JUNE 30, 2004

### Special Revenue Funds

	Local Street	Municipal Street	Cemetery	Public Improvement	Inspections
<b>ASSETS</b>					
Cash and cash equivalents	\$ 146,414	\$ 46,440	\$ 84,379	\$ 499,870	\$ 39,950
Receivables	-	1,607	-	-	-
Due from other governmental units -					
State	11,465	-	-	-	-
Due from other funds	53,918	-	46,757	-	-
Prepaid expense	-	-	-	-	-
	<u>\$ 211,797</u>	<u>\$ 48,047</u>	<u>\$ 131,136</u>	<u>\$ 499,870</u>	<u>\$ 39,950</u>

### LIABILITIES AND FUND BALANCE

<b>Liabilities:</b>					
Accounts payables	\$ -	\$ 4,595	\$ 21,049	\$ -	\$ 56
Accrued liabilities	-	534	731	-	83
Due to other funds	-	22,685	9,601	-	55
	<u>-</u>	<u>27,814</u>	<u>31,381</u>	<u>-</u>	<u>194</u>
<b>Fund Balance:</b>					
Reserved -					
Prepaid	-	-	-	-	-
Debt Services	-	-	-	-	-
Capital Projects	-	-	-	-	-
Unreserved -					
Undesignated	211,797	20,233	99,755	499,870	39,756
	<u>211,797</u>	<u>20,233</u>	<u>99,755</u>	<u>499,870</u>	<u>39,756</u>
	<u>\$ 211,797</u>	<u>\$ 48,047</u>	<u>\$ 131,136</u>	<u>\$ 499,870</u>	<u>\$ 39,950</u>

Special Revenue Funds		Debt Service Funds			Capital Project Fund	Total
Library	Harron Cable	1993 Sidewalk Special Assessment	1994 Transportation Bonds	1995 G.O. Bond Debt	Highway Paving & Sidewalk	
\$ 40	\$ 14,069	\$ 34,502	\$ 85,414	\$ 108	\$ 1,955	\$ 953,141
-	-	-	-	-	-	1,607
-	-	-	-	-	-	11,465
-	-	-	-	-	-	100,675
-	39,617	-	-	-	-	39,617
<u>\$ 40</u>	<u>\$ 53,686</u>	<u>\$ 34,502</u>	<u>\$ 85,414</u>	<u>\$ 108</u>	<u>\$ 1,955</u>	<u>\$ 1,106,505</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 25,700
-	-	-	-	-	-	1,348
-	-	-	-	-	-	32,341
-	-	-	-	-	-	59,389
-	39,617	-	-	-	-	39,617
-	-	34,502	85,414	108	-	120,024
-	-	-	-	-	1,955	1,955
40	14,069	-	-	-	-	885,520
40	53,686	34,502	85,414	108	1,955	1,047,116
<u>\$ 40</u>	<u>\$ 53,686</u>	<u>\$ 34,502</u>	<u>\$ 85,414</u>	<u>\$ 108</u>	<u>\$ 1,955</u>	<u>\$ 1,106,505</u>

# VILLAGE OF ROMEO, MICHIGAN

## NONMAJOR GOVERNMENTAL FUNDS

### COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES FOR THE YEAR ENDED JUNE 30, 2004

	Special Revenue Funds				
	Local Street	Municipal Street	Cemetery	Public Improvement	Inspections
<b>Revenues:</b>					
Taxes	\$ -	\$ 129,952	\$ -	\$ -	\$ -
Intergovernmental -					
State	75,901	-	-	-	-
Charges for services	-	-	14,725	-	25,798
Interest and rent	924	820	494	5,713	255
Other	225	-	39,830	-	-
	<u>77,050</u>	<u>130,772</u>	<u>55,049</u>	<u>5,713</u>	<u>26,053</u>
<b>Expenditures:</b>					
General Government	-	-	84,507	-	-
Public Safety	-	-	-	-	34,100
Public Works	241,409	102,384	-	14,649	-
Recreation and Cultural	-	-	-	-	-
Capital Outlay	-	-	108,886	-	-
Debt Service					
Principal	-	17,455	-	-	-
Interest and charges	-	4,957	-	-	-
	<u>241,409</u>	<u>124,796</u>	<u>193,393</u>	<u>14,649</u>	<u>34,100</u>
Excess of revenues over (under) expenditures	( 164,359)	5,976	( 138,344)	( 8,936)	( 8,047)
<b>Other Financing Sources (Uses):</b>					
Transfers in	249,599	-	138,926	290,000	-
Transfer out	( 17,458)	( 217,149)	-	( 76,585)	-
	<u>232,141</u>	<u>( 217,149)</u>	<u>138,926</u>	<u>213,415</u>	<u>-</u>
Excess of revenues and other sources over (under) expenditures and other uses	67,782	( 211,173)	582	204,479	( 8,047)
Fund Balances at beginning of year	<u>144,015</u>	<u>231,406</u>	<u>99,173</u>	<u>295,391</u>	<u>47,803</u>
Fund Balances at end of year	<u>\$ 211,797</u>	<u>\$ 20,233</u>	<u>\$ 99,755</u>	<u>\$ 499,870</u>	<u>\$ 39,756</u>

Special Revenue Funds		Debt Service Funds			Capital Project Fund	Total
Library	Harron Cable	1993 Sidewalk Special Assessment	1994 Transportation Bonds	1995 G.O. Bond Debt	Highway Paving & Sidewalk	
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 129,952
-	-	-	-	-	-	75,901
-	-	-	-	-	-	40,523
1	11,002	203	314	-	216	19,942
-	39,617	932	-	-	-	80,604
1	50,619	1,135	314	-	216	346,922
-	-	-	-	-	-	84,507
-	-	-	-	-	-	34,100
-	-	-	-	-	-	358,442
-	38,607	-	-	-	-	38,607
-	-	-	-	-	75,644	184,530
-	8,089	-	30,000	65,000	-	120,544
-	2,771	3,509	15,087	35,936	-	62,260
-	49,467	3,509	45,087	100,936	75,644	882,990
1	1,152	( 2,374)	( 44,773)	( 100,936)	( 75,428)	( 536,068)
-	-	-	44,361	100,936	-	823,822
-	-	-	-	-	-	( 311,192)
-	-	-	44,361	100,936	-	512,630
1	1,152	( 2,374)	( 412)	-	( 75,428)	( 23,438)
39	52,524	36,876	85,826	108	77,383	1,070,554
\$ 40	\$ 53,686	\$ 34,502	\$ 85,414	\$ 108	\$ 1,955	\$ 1,047,116

VILLAGE OF ROMEO, MICHIGAN

NONMAJOR SPECIAL REVENUE FUNDS  
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL  
FOR THE YEAR ENDED JUNE 30, 2004

	Original/ Final Budget	Actual	Variance with Final Budget Positive (Negative)
<b>LOCAL STREET FUND</b>			
<b>Revenues:</b>			
Intergovernmental -			
State - Act 51		\$ 67,455	
Public Act 48		8,446	
Interest		924	
Other		225	
	<u>465,708</u>	<u>77,050</u>	<u>388,658</u>
<b>Expenditures:</b>			
Public Works -			
Routine maintenance		165,350	
Traffic markers and street signs		7,106	
Winter maintenance		44,693	
Village beautification		22	
Village tree board		855	
Construction		23,383	
	<u>448,250</u>	<u>241,409</u>	<u>206,841</u>
Excess of revenues over (under) expenditures	<u>17,458</u>	<u>( 164,359)</u>	<u>( 181,817)</u>
<b>Other Financing Sources (Uses):</b>			
Transfers In (Out) -			
Major Street	-	32,450	32,450
Municipal Street Fund	-	217,149	217,149
1994 Street Replacement	( 17,458)	( 17,458)	-
	<u>( 17,458)</u>	<u>232,141</u>	<u>249,599</u>
Excess of revenues and other sources over expenditures and other uses	-	67,782	67,782
Fund Balance at beginning of year	<u>144,015</u>	<u>144,015</u>	<u>-</u>
Fund Balance at end of year	<u>\$ 144,015</u>	<u>\$ 211,797</u>	<u>\$ 67,782</u>

Continued

VILLAGE OF ROMEO, MICHIGAN

NONMAJOR SPECIAL REVENUE FUNDS  
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL  
FOR THE YEAR ENDED JUNE 30, 2004

	Original/ Final Budget	Actual	Variance with Final Budget Positive (Negative)
<b>CEMETERY FUND</b>			
<b>Revenues:</b>			
Charges for services -			
Grave openings		\$ 14,725	
Interest and rent		494	
Other revenue -			
Sale of lots		32,450	
Miscellaneous		7,380	
	<u>49,000</u>	<u>55,049</u>	<u>6,049</u>
<b>Expenditures:</b>			
General Government -			
Salaries		35,408	
Fringe benefits		3,378	
Contracted Service		15,291	
Supplies		4,470	
Telephone		7	
Utilities		606	
Repairs and maintenance -			
Building and grounds		609	
Equipment		249	
Miscellaneous		1,251	
Equipment rental		23,238	
Capital Outlay		108,886	
	<u>79,000</u>	<u>193,393</u>	<u>( 114,393)</u>
Excess of revenues under expenditures	<u>( 30,000)</u>	<u>( 138,344)</u>	<u>( 108,344)</u>
<b>Other Financing Sources:</b>			
Transfers in -			
General Fund	-	108,926	108,926
Motor Vehicle and Equipment Pool	30,000	30,000	-
	<u>30,000</u>	<u>138,926</u>	<u>108,926</u>
Excess of revenues and other sources over expenditures	-	582	582
Fund Balance at beginning of year	<u>99,173</u>	<u>99,173</u>	<u>-</u>
Fund Balance at end of year	<u>\$ 99,173</u>	<u>\$ 99,755</u>	<u>\$ 582</u>

Continued



VILLAGE OF ROMEO, MICHIGAN

NONMAJOR SPECIAL REVENUE FUNDS  
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL  
FOR THE YEAR ENDED JUNE 30, 2004

	Original/ Final Budget	Actual	Variance with Final Budget Positive (Negative)
<b>PUBLIC IMPROVEMENT FUND</b>			
Revenues:			
Interest and rent	\$ 6,000	\$ 5,713	\$ ( 287)
Expenditures:			
Public Works -			
Contracted services	290,000	13,115	276,885
Other	-	1,534	( 1,534)
	<u>290,000</u>	<u>14,649</u>	<u>275,351</u>
Excess of revenues under expenditures	( 284,000)	( 8,936)	275,064
Other Financing Sources (Uses):			
Transfers in (out) -			
General Fund	290,000	290,000	-
Sewer Fund	( 6,000)	( 76,585)	( 70,585)
	<u>284,000</u>	<u>213,415</u>	<u>( 70,585)</u>
Excess of revenues and other sources over expenditures and other uses	-	204,479	204,479
Fund Balance at beginning of year	<u>295,391</u>	<u>295,391</u>	-
Fund Balance at end of year	<u>\$ 295,391</u>	<u>\$ 499,870</u>	<u>\$ 204,479</u>

Continued

VILLAGE OF ROMEO, MICHIGAN

NONMAJOR SPECIAL REVENUE FUNDS  
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL  
FOR THE YEAR ENDED JUNE 30, 2004

	Original/ Final Budget	Actual	Variance with Final Budget Positive (Negative)
<b>INSPECTIONS FUND</b>			
<b>Revenues:</b>			
Permits			
Building		\$ 8,547	
Electrical		3,993	
Heating		13,258	
Interest		255	
	<u>20,450</u>	<u>26,053</u>	<u>5,603</u>
<b>Expenditures:</b>			
Public Safety -			
Salaries		25,875	
Fringe benefits		2,505	
Supplies		329	
Contracted services		1,793	
Telephone		1,142	
Education and training		1,649	
Other		807	
	<u>45,450</u>	<u>34,100</u>	<u>11,350</u>
Excess of revenues over (under) expenditures	( 25,000)	( 8,047)	16,953
<b>Other Financing Sources:</b>			
Transfers in -			
General Fund	<u>25,000</u>	<u>-</u>	<u>( 25,000)</u>
Excess of revenues and other financing sources under expenditures	-	( 8,047)	( 8,047)
Fund Balance at beginning of year	<u>47,803</u>	<u>47,803</u>	<u>-</u>
Fund Balance at end of year	<u>\$ 47,803</u>	<u>\$ 39,756</u>	<u>\$ ( 8,047)</u>

Continued

VILLAGE OF ROMEO, MICHIGAN

NONMAJOR SPECIAL REVENUE FUNDS  
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL  
FOR THE YEAR ENDED JUNE 30, 2004

	Original/ Final Budget	Actual	Variance with Final Budget Positive (Negative)
<b>LIBRARY FUND</b>			
<b>Revenues:</b>			
Delinquent Personal Property Tax	\$ -	\$ -	\$ -
Interest and rent	-	1	1
	<u>-</u>	<u>1</u>	<u>1</u>
<b>Expenditures:</b>			
Recreation and Cultural - Romeo District Library	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>
Excess of revenues over expenditures	-	1	1
Fund Balance at beginning of year	<u>39</u>	<u>39</u>	<u>-</u>
Fund Balance at end of year	<u>\$ 39</u>	<u>\$ 40</u>	<u>\$ 1</u>

Continued

VILLAGE OF ROMEO, MICHIGAN

NONMAJOR SPECIAL REVENUE FUNDS  
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL  
FOR THE YEAR ENDED JUNE 30, 2004

ILARRON CABLE FUND

	Original/ Final Budget	Actual	Variance with Final Budget Positive (Negative)
<b>Revenues:</b>			
Interest and rents	\$ 10,860	\$ 11,002	\$ 142
Other -			
Franchise fees	38,607	39,617	1,010
	<u>49,467</u>	<u>50,619</u>	<u>1,152</u>
<b>Expenditures:</b>			
Recreation and Cultural -			
Tri-Community Cable Communication			
Commission	38,607	38,607	-
Debt Service	10,860	10,860	-
	<u>49,467</u>	<u>49,467</u>	<u>-</u>
Excess of revenues over expenditures	-	1,152	1,152
Fund Balance at beginning of year	<u>52,534</u>	<u>52,534</u>	<u>-</u>
Fund Balance at end of year	<u>\$ 52,534</u>	<u>\$ 53,686</u>	<u>\$ 1,152</u>

Continued

## FIDUCIARY FUNDS

# VILLAGE OF ROMEO, MICHIGAN

## AGENCY FUND STATEMENT OF CHANGES IN ASSETS AND LIABILITIES FOR THE YEAR ENDED JUNE 30, 2004

	Balance July 1, 2003	Additions	Deductions	Balance June 30, 2004
<b>ASSETS</b>				
Due from other sources	<u>\$ 3,596</u>	<u>\$ 16,754</u>	<u>\$ 20,310</u>	<u>\$ 40</u>
<b>LIABILITIES</b>				
Due to other funds	\$ 3,196	\$ 9,844	\$ 13,040	\$ -
Due to other governmental units - Local	<u>400</u>	<u>3,189</u>	<u>3,549</u>	<u>40</u>
	<u>\$ 3,596</u>	<u>\$ 13,033</u>	<u>\$ 16,589</u>	<u>\$ 40</u>

**COMPONENT UNIT**

**VILLAGE OF ROME, MICHIGAN**  
**DOWNTOWN DEVELOPMENT AUTHORITY**  
**BALANCE SHEET**  
**JUNE 30, 2004**

**Current Assets:**

Cash and cash equivalents	\$	160,577
Due from primary government		<u>50,791</u>
	\$	<u><u>211,368</u></u>

**Fund Balance:**

Unreserved/Undesignated	\$	<u><u>211,368</u></u>
-------------------------	----	-----------------------



VILLAGE OF ROMEO, MICHIGAN

DOWNTOWN DEVELOPMENT AUTHORITY  
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL  
FOR THE YEAR ENDED JUNE 30, 2004

	Original/ Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:			
Taxes	\$ 51,400	\$ 114,957	\$ 63,557
Interest and rents	600	749	149
	<u>52,000</u>	<u>115,706</u>	<u>63,706</u>
Expenditures:			
Public Works -			
Miscellaneous	<u>52,000</u>	<u>48,534</u>	<u>3,466</u>
Excess of revenues over expenditures	-	67,172	67,172
Fund Balance at beginning of year	<u>144,196</u>	<u>144,196</u>	<u>-</u>
Fund Balance at end of year	<u>\$ 144,196</u>	<u>\$ 211,368</u>	<u>\$ 67,172</u>



**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

To the President and Members of  
the Village Council of Trustees  
Village of Romeo, Michigan

We have audited the financial statements of the Village of Romeo, Michigan, as of and for the fiscal year ended June 30, 2004, and have issued our report thereon dated November 4, 2004. We conducted our audit in accordance with standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Compliance**

As part of obtaining reasonable assurance about whether the Village of Romeo, Michigan's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of the laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Village of Romeo, Michigan's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Village of Romeo, Michigan's ability to record, process, summarize, and report financial data consistent with the assertions of the administration in the financial statements.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions, and accordingly would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. We note no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting, which we have reported to management of the Village of Romeo, in a separate letter dated November 4, 2004.

This report is intended solely for the information of the audit committee, administration and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

  
Certified Public Accountants

November 4, 2004



To the President and Members  
of the Village Board of Trustees  
Village of Romeo, Michigan

We have recently completed our audit of the records of the Village of Romeo, Michigan, for the year ended June 30, 2004. As noted in the Report on Compliance and Internal Control over Financial Reporting, dated November 4, 2004, there were no compliance issues or material weaknesses that were required to be reported under Government Auditing Standards.

However, as we discussed, this is the first year that the Village was audited under the new Statement of Auditing Standards No. 99 "Consideration of Fraud in the Financial Statement Audit", which became effective for audits ending on or after December 31, 2003. SAS 99 put renewed emphasis on internal control over fraud and abuse in the workplace. It requires that we "brainstorm" on how fraud and abuse can be committed in an entity and design tests with this in mind. The new standard also requires improved communications with the client on possible areas of fraud and abuse. As a result, we believe that certain changes in your accounting and administrative procedures would enhance controls that the Village has in place.

**The Village should consider closing the Library Fund.**

During the past couple of years there has been very little activity in the Library Fund. We suggest that the Board consider closing this fund.

**Management should consider whether the signature stamps are absolutely necessary.**

During our audit we noted that signature stamps are maintained to sign accounts payable and payroll checks when certain people are not available. Although it is our understanding that the stamps are maintained in the safe in the Treasurers office, the safe is unlocked during the day so most employees could have access to the stamps. In addition by utilizing the stamps, checks can get processed with only one person seeing the check.

We recommend that the Village review the reasons that signature stamps are maintained and if not absolutely necessary, that they be destroyed. If it is decided that they are necessary, not one individual should have access to both stamps.

**All cash receipts, including taxes, should be recorded at the time they are received.**

Currently when taxes are paid they are not receipted into the cash receipting program but rather given to the Treasurer and receipted at a later time. Controls could be increased if all cash receipts were directly receipted into the accounting package at the time they are paid.

**The Village should consider covering employees with fidelity bonds.**

During our audit we were told that no employees are covered by fidelity bonds. We recommend that all employees that have access to cash (either receipting or disbursing) or responsible for other assets or accounting records be bonded.

**Improve control over electronic transactions.**

Public Act 738 of 2002 requires that each governing body adopt a policy for Automated Clearing House (ACH) arrangements and Electronic Transactions of Funds. The policy should contain procedures and personnel responsible for payments approval, accounting, reporting and general overseeing of compliance issues.

We recommend that a resolution for such a policy be adopted. In addition a record of all electronic transactions should be maintained to document which accounts are involved and the purpose of the transfer.

**There is a lack of segregation of duties over the DDA cash disbursement function.**

Currently, the DDA Treasurer prepares checks, is one of the check signers, reconciles the bank accounts, etc. As a result, a number of errors or irregularities can occur and go undetected. Good internal accounting controls require that no one individual has control over an entire accounting process.

In addition, it was noted that many check requests were paid without the appropriate supporting documentation present.

Although we understand that it is very difficult to segregate duties in a small accounting office, we recommend that the duties be segregated as much as possible and where it is not practical to separate duties, that compensating controls and surprise procedures be put in to place throughout the year.

**To increase controls "accounts receivable invoices" prepared by the Village should be prepared by someone other than the individual responsible for cash receipting and the invoices should be prenumbered.**

At the current time certain accounts receivable invoices for miscellaneous charges by the Village are prepared by the Administrative Secretary and are not prenumbered. To increase controls the billing process should be segregated from the individual who collects the money. The invoices should be maintained in a numerical sequence in order to determine that all invoices have been accounted for and that all revenue is recorded.

**Adopt a policy that restricts checks from being cashed out of the cash drawer.**

During the review of policies and procedures it was noted that the Village does not have a written policy that restricts checks from being cashed out of the cash drawer.

To increase controls over possible misuse such a policy should be adopted.

The Village should obtain certifications from each financial institution that the Village has funds deposited.

As required by Michigan Compiled Laws the Village has adopted an investment policy. Act 20 PP 1943, as amended, also requires that municipalities in the State of Michigan obtain certifications from each financial institution which certifies that they will only invest funds in accordance with the policy.

We recommend that bank certifications be obtained from all financial institutions.

These conditions were considered in determining the nature, timing and extent of the audit tests applied in our audit of the June 30, 2004 financial statements. We have considered internal control since the date of our report. It is always important to remember that management is responsible for the design and implementation of programs and controls to prevent and detect fraud.

This report is intended solely for the information of management and the Board of Trustees of the Village of Romeo, Michigan and is not intended to be and should not be used by anyone other than these specified parties.

We wish to express our appreciation for the courtesy and cooperation extended to us during our examination. We are available to discuss any or all of these conditions with you and to provide assistance in the implementation of improvements.

Sincerely,

A handwritten signature in cursive script, likely reading "Stewart, Beaman & Whipple".

November 4, 2004